

# **PUBLIC DISCLOSURE**

**August 1, 2006**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Doral Bank  
32102**

**163 Barbosa Avenue  
Catano, Puerto Rico 00962**

**Federal Deposit Insurance Corporation  
20 Exchange Place  
New York, New York 10005**

**NOTE:** This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Doral Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **August 1, 2006**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

## INSTITUTION RATING

**INSTITUTION'S CRA RATING:** This institution is rated Satisfactory.

A CRA rating of "Satisfactory" is assigned. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The assigned rating is based on the following factors.

### **Lending Test**

- The bank's volume of lending reflects an excellent responsiveness to the needs of the assessment area.
- The bank has originated a substantial majority of loans within the designated assessment area.
- The distribution of the bank's Home Mortgage Disclosure Act (HMDA) loans demonstrates an adequate penetration throughout the low-, moderate-, middle-, and upper-income census tracts within the bank's assessment area. However, there were approximately 2,200 loans omitted from the bank's 2005 HMDA loan application register (LAR) that were not evaluated.
- The distribution of small business loans could not be evaluated as the bank was missing several hundred loans on both the 2004 and 2005 CRA small business registers.
- The distribution of consumer loans demonstrates an adequate penetration throughout the low-, moderate-, middle-, and upper-income census tracts within the bank's assessment area.
- The distribution of the bank's HMDA loans reflects a poor distribution among retail customers of different income levels. The bank's consumer lending exhibits an adequate penetration of loans to retail customers of different income levels.
- The bank is a leader in making community development loans.
- The bank makes extensive use of innovative and/or flexible lending products.

### **Investment Test**

- The bank has an adequate level of qualified community development investments and grants/donations for this evaluation period that respond to community economic and development needs.

**Service Test**

- The bank's retail delivery systems are readily accessible to all portions of the assessment area, including low- and moderate-income geographies.
- The bank opened seven new branches since the previous evaluation, two of which are located in moderate-income census tracts. The bank closed no branches during the evaluation period. This has not adversely affected the accessibility of the bank's delivery systems.
- The bank offers alternative delivery systems to essentially all portions of the assessment area.
- Services are tailored to the convenience and needs of the assessment area.
- The bank is a leader in providing community development services throughout the assessment area.

**LENDING, INVESTMENT, AND SERVICE TEST TABLE:**

*The following table indicates the performance level of the institution with respect to the lending, investment, and service tests.*

<b>PERFORMANCE LEVELS</b>	<b>Doral Bank</b>		
	<b>PERFORMANCE TESTS</b>		
	<b>Lending Test</b>	<b>Investment Test</b>	<b>Service Test</b>
Outstanding			X
High Satisfactory	X		
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			

## **PERFORMANCE CONTEXT**

### **DESCRIPTION OF INSTITUTION:**

Doral Bank is a full service banking institution, headquartered in Catano, Puerto Rico. The bank is a wholly owned subsidiary of Doral Financial Corporation, a bank holding company organized pursuant to the laws of the Commonwealth of Puerto Rico. Doral Bank has a wholly owned subsidiary in the United States called Doral Money, Inc. (U.S.A.). The bank also has a wholly owned subsidiary in Puerto Rico called Doral International, Inc., which is licensed as an International Banking Entity under the Commonwealth of Puerto Rico's International Banking Center Act.

Doral Bank operates 43 branches throughout Puerto Rico, of which 15 branches are located in moderate-income census tracts, 7 branches are located in middle-income census tracts, and 21 branches are located in upper-income census tracts. The bank's main office is located in an upper-income census tract. Since the previous CRA evaluation on October 21, 2003, Doral Bank opened seven new branches. Five of the new branches are located in upper-income census tracts and two are located in moderate-income census tracts. There were no branch offices closed since the last examination.

The bank's major loan product, by volume, is residential mortgage loans, which represent 50 percent of the bank's loan portfolio. The bank also offers construction/land development loans, commercial real estate loans and consumer loans. During the first quarter of 2006, the bank added approximately \$416 million in loans that were classified as being to other commercial banks in the United States. This increase involved the reclassification of loans that had been previously sold by the bank. As such, it is expected that the loans in this category will only remain in the portfolio on a short term basis.

As of June 30, 2006, the bank's total assets were \$10.6 billion. This reflects a 71.4 percent increase since the previous evaluation period. Loans and leases totaled \$3.8 billion and represented 36 percent of total assets and 98.03 percent of total deposits. U.S. Government obligations and mortgage backed securities comprised the bulk of the investment portfolio, which in total represented \$5.7 billion or 53.50 percent of total assets. The remaining \$1 billion, or 10.51 percent, of total assets were concentrated in cash, trading assets, premises/fixed assets, other real estate owned, and other assets. Deposit accounts totaled \$3.9 billion and represented approximately 36.72 percent of all liabilities and capital. Securities sold under agreements to repurchase, other borrowed money, other liabilities, and equity capital comprised the remainder.

Table A that follows shows the distribution of the bank's loan portfolio:

<b>Table A - Loan Distribution as of 6/30/2006</b>		
<b>Loan Type</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Total Loans (%)</b>
Construction and Land Development	\$736,102	19.29
Secured by Farmland	0	0
1-4 Family Residential	\$1,926,610	50.49
Multi-Family (5 or more) Residential	0	0
Commercial	\$547,587	14.35
<b>Total Real Estate Loans</b>	<b>\$3,210,299</b>	<b>84.13</b>
Loans to Depository Institutions	\$415,629	10.89
Commercial and Industrial	\$64,277	1.68
Agricultural	0	0
Consumer	\$87,020	2.28
Lease Financing	\$38,752	1.02
Less: Unearned Income	0	0
<b>Total Loans</b>	<b>\$3,815,977</b>	<b>100</b>

Source: Call Report RC-C.

The bank has a Tier 1 leverage capital ratio of 6.92 percent and a Return on Assets (ROA) ratio of 0.78 percent as of June 30, 2006. Tier 1 leverage capital measures the level of the institution's core capital as a percent of total assets. ROA measures the institution's net income as a percent of assets. Net income for year-end 2005 was \$41.8 million.

There are no impediments, legal, or otherwise, which would impact the bank's ability to help meet the credit needs of the assessment area.

Doral Bank was rated "Satisfactory" at the previous CRA evaluation performed by the FDIC as of October 21, 2003.



## **DESCRIPTION OF DORAL BANK'S ASSESSMENT AREA(s):**

Doral Bank has expanded its assessment area since the previous evaluation. The bank now has six assessment areas consisting of 818 census tracts. The assessment area includes all of Puerto Rico with the exception of the small Islands of Vieques and Culebra. The assessment area encompasses seven MSAs throughout the Island of Puerto Rico. The bank's assessment area includes all three of the Consolidated Statistical Areas (CSA) in Puerto Rico. Also included in the bank's assessment area are the two MSAs in Puerto Rico that are not part of a CSA and the non-MSA portions of the Island.

These assessment areas are described in greater detail as follows:

### **Assessment Area #1 – Consolidated Statistical Area (CSA 364)**

This area contains all municipalities within MSA 32420 (Mayaguez) and MSA 41900 (San German – Cabo Rojo). According to the 2000 census data, the assessment area consists of 1 (1.82 percent) low-income census tract, 8 (14.54 percent) moderate-income census tracts, 35 (63.64 percent) middle-income census tracts, and 11 (20 percent) upper-income census tracts.

### **Assessment Area #2 – Consolidated Statistical Area (CSA 434)**

This area contains all municipalities within MSA 38660 (Ponce) and MSA 49500 (Yauco). According to the 2000 census data, the assessment area consists of 2 (2.25 percent) low-income census tracts, 22 (24.72 percent) moderate-income census tracts, 39 (43.82 percent) middle-income census tracts, and 25 (28.09 percent) upper-income census tracts. This area also includes one (1.12 percent) census tract for which no demographic data is available, which is usually the result of limited or no population.

### **Assessment Area #3 – Consolidated Statistical Area (CSA 490)**

This area contains all municipalities within MSA 21940 (Fajardo) and MSA 41980 (San Juan). According to the 2000 census data, the assessment area consists of 18 (3.26 percent) low-income census tracts, 154 (27.90 percent) moderate-income census tracts, 215 (38.95 percent) middle-income census tracts, and 165 (29.89 percent) upper-income census tracts.

### **Assessment Area #4 – Metropolitan Statistical Area 10380 - Non CSA Area**

This area contains all municipalities within MSA 10380 (Aguadilla – Isabela – San Sebastian) which is not part of a CSA. According to the 2000 census data, the assessment area consists of 8 (12.50 percent) moderate-income census tracts, 49 (76.56 percent) middle-income census tracts, and 7 (10.94 percent) upper-income census tracts. This area does not have any low-income census tracts.

### **Assessment Area #5 – Metropolitan Statistical Area 25020 - Non CSA Area**

This area contains all municipalities within MSA 25020 (Guayama) which is not part of a CSA. According to the 2000 census data, the assessment area consists of 12 (80 percent) middle-

income census tracts, and 3 (20 percent) upper-income census tracts. This area does not have any low-income or moderate-income census tracts.

### **Assessment Area #6 – Non CSA Area/Non MSA Area**

This area contains eight municipalities that are not within an MSA. According to the 2000 census data, the assessment area consists of 5 (11.63 percent) moderate-income census tracts, 32 (74.42 percent) middle-income census tracts, and 6 (13.95 percent) upper-income census tracts. This area does not have any low-income census tracts.

## **Economic Overview**

The following information was obtained from the FDIC's Division of Insurance and Research:

### General

Puerto Rico's economy has been challenged by a budgetary crisis. The Commonwealth's public sector, which accounts for 30 percent of total employment in Puerto Rico, reached a breaking point in May of this year. Puerto Rico's jobless rate is holding at 12 percent, over twice the mainland figure.

A fiscal year 2006 budget gap in excess of \$700 million was the impetus for Puerto Rico's impromptu 100,000 worker layoff in early May. The administration was able to secure an emergency \$741 million loan from the Government Development Bank and reinstate most employees through the end of the fiscal year, but the quick fix solution was too late to prevent a ripple effect that still has retailers, government and residents all a little skittish. At the very least, this budget catastrophe will force Puerto Rico to finally execute a plan to retrench its bloated public sector, but with the Island's private sector and a sizeable underground economy, displaced workers face a tough road ahead.

Growth in the Puerto Rican economy will suffer on the back of imminent public sector layoffs, but when the government is able to stabilize itself at a sustainable level, performance will likely improve substantially. The problem lies in the Commonwealth's ability to make meaningful steps toward recovery and how quickly and seamlessly a plan can be put into place. Still, if successful, Puerto Rico's long-term economic potential is strong. For these reasons, Puerto Rico will be a mixed performer over the forecast horizon.

The largest employers, by industry, are the government (29.3 percent); manufacturing (11.1 percent); professional and business services (10.0 percent); education and health services (9.5 percent); leisure and hospitality services (6.9 percent); construction (5.3 percent); financial activities (4.7 percent); information services (2.2 percent); other services (2.0 percent); and transportation/utilities (1.7 percent). Top employers included Popular Inc. (11,334), Puerto Rico Telephone (5,800 employees), University of Puerto Rico (5,558 employees), Sara Lee Corporation (5,424 employees), Caribbean Restaurants (4,875 employees), Baxter International, Inc. (4,000 employees), Johnson and Johnson (4,000 employees), Wal-Mart Stores, Inc. (3,778

employees), Caribe GE Products, Inc. (3,600 employees) and Inter American University of P.R. (3,486 employees).

### Housing Stock

The housing stock within the bank's assessment area totals 1.4 million units, of which 916,523 (65 percent) are owner-occupied, 340,784 (24 percent) are occupied rental units, and the remaining 155,757 (11 percent) are vacant. The majority of the units, 1,253,994 (89 percent) are 1-4 family dwellings, with 153,200 (11 percent) multi-family dwellings, 5,633 (negligible percentage) mobile homes, and 197 (negligible percentage) other units. Other units include houseboats, railroad cars, campers, and vans. The median age of housing stock and median housing value of the entire assessment area is 14 years and \$79,523, respectively. However, the median value in low- and moderate-income areas is \$50,420 and \$60,917, respectively.

<b>Table B – Selected Housing Characteristics by Income Category of the Geography</b>									
<b>Geographic Income Category</b>	<b>Percentage</b>						<b>Median</b>		
	<b>Census Tracts</b>	<b>House-holds</b>	<b>Housing Units</b>	<b>Owner-Occupied</b>	<b>Rental Units</b>	<b>Vacant Units</b>	<b>Age</b>	<b>Home Value*</b>	<b>Gross Rent**</b>
<b>Low</b>	2.6	2.0	1.9	0.8	5.2	1.4	27	\$50,420	\$115
<b>Moderate</b>	24.1	22.3	22.5	21.4	24.7	23.8	15	\$60,917	\$241
<b>Middle</b>	46.7	48.6	48.8	49.9	45.1	50.8	13	\$70,415	\$288
<b>Upper</b>	26.5	27.1	26.8	27.9	25.0	24.0	16	\$113,889	\$412
<b>\$0/NA Income</b>	0.1	0.0	0.0	0.0	0.0	0.0	5	\$0	\$0
<b>Total or Median ***</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>14</b>	<b>\$79,523</b>	<b>\$300</b>

Source: U.S. Census, \* - Owner-Occupied Units, \*\* - Renter-Occupied Units, \*\*\* Total percentage may not add to 100 due to rounding.

### Housing Affordability

An analysis of the affordability of housing within the assessment area was performed. The affordability ratio indicates the amount of single family owner-occupied housing that a dollar of income can purchase for the median household within a geography. The ratio is calculated by dividing the median household income by the median housing value of the area or geography under consideration. Values closer to 1.0 indicate greater affordability. The median household income of the bank's assessment area is \$16,030 and the median housing value is \$79,523, resulting in an affordability ratio of .20.

The high cost of housing in relation to the low household incomes has made it difficult for banks and community development organizations to participate in projects aimed at satisfying the credit needs of low- and moderate-income borrowers, as defined in the CRA regulation. For

example, the highest 2005 HUD-adjusted median family income on the island is \$20,900 (MSA 41980). For any community development loan to be considered “qualified” for CRA purposes, the majority of the housing units would have to be for borrowers with annual incomes below \$16,720. In Puerto Rico, the cost of housing is very high, making it nearly impossible for banks to originate qualified community development loans or purchase lending-related qualified investments. However, since the Island is considered a “high-cost area,” Interagency guidance allows examiners flexibility in considering which projects have a primary purpose of community development.

Due to the extremely high cost of housing in Puerto Rico and the relatively low income levels, it would appear as though there would be a credit shortage for upper-income people as well. In the San Juan MSA, an upper-income individual earns over \$25,080, which still only results in an affordability ratio of .31 percent. The following information demonstrates the high-cost of housing as well as justifies the inclusion of government-sponsored community development loans and investments (using government-determined income limits) in this performance evaluation.

### **The Puerto Rico Housing Bank & Finance Agency (Banco de la Vivienda)**

The Puerto Rico Housing Bank & Finance Agency (PRHB), through its various loan programs, is the primary government entity responsible for facilitating the growth of affordable housing projects on the Island. Created in 1961 as a governmental instrumentality of the Commonwealth of Puerto Rico, its purpose is to assist the government of Puerto Rico in its housing programs and to develop more effectively its governmental responsibility for promoting the economy and the welfare of the residents. The housing bank administers the following housing programs:

1. Act 124 Loans.
2. Spot Loans.
3. Mortgage Insurance (Puerto Rico Law 87).
4. HOME Program Administration.

#### **1. Act 124 Loans**

The Act 124 Loan Program was introduced through Legislative Act 124 in December 1993. It was designed to stimulate the construction and sale of owner-occupied housing units to low- and moderate-income families through private sector participation. Act 124 loans are funded in part by a budget allocation from the Commonwealth of Puerto Rico and by proceeds from the sale of Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC) Certificates backed by pools of Act 124 loans.

Under Act 124, builders submit project plans to the housing bank to receive its endorsement. Eligible projects contain newly constructed single family structures or condominium units that have sales prices below established maximums. As the programs are built in stages, the Legislature periodically adjusts the maximum sales prices. In mid-2004, the maximum selling price was increased to \$90,000 with some urban areas set at \$100,000. Maximum selling prices

are determined by the Legislature after considering the location of the property, the maximum mortgage amount insurable by FHA, and guides and parameters generally accepted in the construction industry.

Once the project endorsement is received, the housing bank issues a commitment when a stage of the program is active and the developers submit all the required documents. The endorsement/commitment allows for an expedited approval/licensing process at the various government agencies involved in the building process. The housing bank does not provide construction or permanent financing. Therefore, it is necessary for the builder to obtain financing from other government agencies or financial institutions.

Developers benefit in several ways. Approvals are expedited, sales risk is reduced due to strong demand and subsidies, and a portion of the developers' profit from each unit is tax-exempt. This exemption ranges from \$4,000 per unit in Group III municipalities to \$5,000 per unit in Group I.

In addition to the criteria discussed above, the developer agrees that the units will only be sold to qualified low- and moderate-income families (LMI). The housing bank defines LMI families as those whose income does not exceed \$45,000 per year. This maximum income was established to be consistent with the limits under Federal or local social interest programs applicable in Puerto Rico, such as the Department of Housing & Urban Development's (HUD) HOME program, Rural Development's housing programs, or the Spot Loan Program (discussed later).

Act 124 provides two forms of subsidy, administered by the housing bank. Developers agree that at least 35 percent of the LMI buyers must meet the qualifications for Act 124 subsidies. Applicant income and family size determine the applicability of subsidies, if any. Down payment assistance in the amount of 2 percent of the acquisition cost, not to exceed \$1,280, is provided, as well as monthly installment payment subsidies. These monthly subsidies subsidize the difference between the prevailing market rate established for the particular stage and the rate paid by the borrower. Subsidized mortgage interest rates are available at 3.75 percent, 4.75 percent, and 5.75 percent, depending upon family size and income level. The prevailing rate for Stage VIII is 6.5 percent. The prevailing rate for Stage VII was 7 percent. Applicants not receiving interest rate subsidies pay the prevailing rate for the particular stage. Buyers must obtain mortgages from lenders participating in the Act 124 Loan Program.

## 2. Spot Loans

These loans are originated by the PRHB directly, for the purchase of new or existing homes, construction, or home improvements. The maximum loan is \$90,000; the maximum rate is fixed at 6 percent for a term of 30 years. The maximum annual income for applicants is \$45,000. There is a closing cost subsidy based on income levels, up to a 3 percent discount. For applicants with incomes of \$20,000 or less, borrowers receive a 3 percent discount. For incomes between \$20,001 and \$29,999, borrowers receive a 2 percent discount. For incomes between \$30,000 and \$45,000, borrowers receive a 1 percent discount.

### 3. Mortgage Insurance Program (Puerto Rico Law 87)

The PRHB issues mortgage insurance that provides 100 percent coverage of applicable loans. The insurance is used in conjunction with all Spot Loans, some Act 124 loans, and loans originated by private lenders where the applicant's gross annual income does not exceed \$45,000, the loan interest rate is at least ½ percent below the prevailing market interest rate, and closing costs do not exceed 3 percent of the loan amount.

### 4. HOME Program

The HOME Investment Partnership Program (HOME Program), administered by the Department of Housing and Urban Development (HUD) allocates funds by formula among eligible state and local governments to strengthen public-private partnerships and to expand the supply of decent, safe, sanitary, and affordable housing with primary attention to rental housing for low-income families. Generally, HOME funds must be matched by nonfederal resources. State and local governments that become participating jurisdictions may use HOME funds to carry out multi-year housing strategies through acquisition, rehabilitation, and new construction of housing and tenant based rental assistance. Participating jurisdictions may provide assistance in a number of eligible forms, including loans, advances, equity investments, interest subsidies, and other forms of investment that HUD approves.

The following municipalities on the island of Puerto Rico receive HOME funds directly from HUD and are charged with the administration of the funds: Aguadilla, Arecibo, Bayamon, Caguas, Carolina, Guaynabo, Mayaguez, Ponce, San Juan, Toa Baja, Trujillo Alto, and Vega Baja. The remainder of the funds are allocated to the island of Puerto Rico and administered by the PRHB.

### **The Puerto Rico Housing Finance Corporation (Corporation)**

On November 16, 1977, the Board of Directors of the Government Development Bank of Puerto Rico established the Puerto Rico Housing Finance Corporation. The Corporation was formed to oversee the construction, reconstruction, improvement, alteration, and repair of decent, safe, and sanitary dwellings for persons and families of low- and moderate-income in Puerto Rico. With the aid of Section 8 housing subsidies, construction began on several projects throughout the Island. Through the years, these projects were completed and it became evident that additional funds were needed to improve the projects and build additional housing facilities for low- and moderate-income families. To address the additional funding needs, the Corporation received approval on December 21, 1987, to issue \$327 million in AAA-rated bonds, the proceeds of which were used to purchase GNMA Collateralized Mortgage Obligations. These GNMA securities were backed by the mortgages on the Section 8 multifamily housing constructed by the Corporation in the late 1970's and early 1980's.

There is little rental construction available at this time, with the shift in focus from rental housing to owner-occupied affordable housing and changes to the Section 8 program where annual renewals are only available. Since 2001, the Corporation has financed 8 housing projects under its tax credit program which include 851 housing units for a total of \$45.3 million. Under its loan financing program, it has financed 4 housing projects with 550 units, for a total of \$26.6

million. For its 124 program, it created bond issuance number 7 for 9 housing projects with 793 housing units and a total of \$52.2 million. It created bond issuance number 8 for 39 housing projects with 5,682 housing units, totaling \$278.7 million and bond issuance number 9 for 6 housing projects with 658 housing units totaling \$40.3 million. It also sold 1 housing project with 60 housing units totaling \$3 million. The 124 program is designed to provide housing units for low- and moderate-income families on the Island.

Financial institutions can support the operations of the Puerto Rico Housing Finance Corporation by purchasing its various bond issues. The proceeds of bond issues are either used to finance the construction of Act 124 housing or used to finance individual mortgage loans to buyers of Act 124 housing.

### **Construction Costs**

Home construction costs in Puerto Rico are high due primarily to the cost of land. Buildable land is in short supply in the urban, highly populated areas. Costs are less in the rural areas; however, the lack of adequate transportation and infrastructure greatly reduces the demand for housing in these areas. A review of current projects revealed construction costs are approximately \$30,000 for Habitat for Humanity (voluntary labor, donated materials, and land made available at a very low cost), \$31,000 for Act 124 programs in non-MSA portions of the Island (borrower incomes are much lower), and approximately \$60,000 in a Neighborhood Housing Services project in Ponce.

### **Public Housing**

There is a large segment of the population that does not earn sufficient income to afford home ownership or to make market-rate rent payments. Their housing needs are met by the Department of Housing of the Commonwealth of Puerto Rico. They operate 329 public housing projects in Puerto Rico containing 56,000 housing units for approximately 250,000 persons. The waiting list for public housing is approximately equal to the current number of residents. Based on a total Island population of 3.8 million, about 7 percent of the population either lives in or is waiting to live in public housing.

Public housing is located throughout the Island. Only one municipality does not have a public housing project. Most projects are located in MSA 7440 (San Juan - Bayamon), but large numbers can also be found in the more urban areas of Ponce and Mayaguez. In MSA 7440, there are 136 projects (41 percent) containing 30,260 units for 121,000 people.

Of the families living in public housing, 21 percent have \$0 or negative rents. Ninety-one percent have rents ranging from -\$32 to less than \$101 per month. The largest single rent range is \$.01 to \$20.99, where 46 percent of the rents fall.

### **Economic Development Bank (EDB)**

Created in 1985, the Puerto Rico government sponsored bank was formed to help small start-up businesses gain access to funding. Since 1985, the EDB has lent over \$800 million to 7,300

businesses. The maximum loan amount is \$5 million. In 2002, the EDB loaned \$128 million to new businesses.

### **Conclusion:**

Bank participation in the various programs of the Puerto Rico Housing Bank & Finance Agency and the Puerto Rico Housing Finance Corporation is needed for the programs to be successful. Banks can either purchase securities backed by Act 124 mortgages or originate construction mortgages to developments with a government endorsement. Clearly, using the HUD-adjusted median family income figures, the majority of the investments and loans would not be considered “qualified” for CRA purposes. However, the sales activity presented above shows that the government-established affordable housing income limit of \$45,000 is a more appropriate and reasonable estimate. Therefore, loans to developers of Act 124 housing, as well as investments backed by Act 124 loans, will be considered “qualified” for the purposes of community development lending and investments presented in this CRA Performance Evaluation.

### **Competition and Services**

The assessment area is served by many other large financial institutions and affiliated mortgage companies, including Banco Popular and Popular Mortgage; RG Premier Bank, RG Mortgage Corporation, and The Mortgage Store; Oriental Group; and Citibank, N.A. Including Doral Bank and two of its affiliates (HF Mortgage and Doral Mortgage), these ten institutions accounted for nearly 75 percent of the residential mortgage originations in Puerto Rico in 2004. The bank relies on media advertising, walk-in traffic throughout its vast network of bank branch and mortgage company offices, in addition to realtors and Internet banking, for marketing of its many residential mortgage loan products.

### **Community Contact**

There was one community contact performed during this examination. In addition, a previously initiated contact was reviewed. According to the contact made during the examination, there are numerous community development opportunities for financial institutions which include the following: 1) deposits in Community Development Financial Institutions (CDFIs), 2) micro enterprise loans, 3) home improvement products, 4) lines of credit to community groups, 5) better partnerships between banks and community groups, and 6) housing developments that plan for displaced people. The previously initiated contact, which was reviewed during this examination, emphasized the need for continued education among Puerto Rico residents, and especially the need to coordinate all the existing universities to improve their access to available educational research data. It was stressed that a better educated citizenry will serve to improve the overall economy of the Island.



## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:**

### **Scope of Evaluation**

The evaluation of this institution's lending performance is based on a review of all home mortgage (HMDA) and consumer loans originated by the bank during 2004 and 2005. Lending data for 2003 was also reviewed; however, since it is consistent with years 2004 and 2005 it is not included within this evaluation. While small business loans were initially reviewed and evaluated, they were excluded from the analysis when it was determined that hundreds of loans were omitted from the bank's CRA small business loan registers in 2004 and 2005. While HMDA data was reviewed and is included within the evaluation, it is important to note that there were over 2,200 loans omitted from the bank's 2005 HMDA LAR thus negatively affecting the analysis. The bank does not engage in agricultural lending.

The evaluation was based on 2000 U.S. Census Data. The bank's performance by dollar volume was similar to number volume, and therefore is not included herein. Management of Doral Bank requested that lending activity for its affiliates be analyzed. Affiliate data is taken into consideration in all areas of the public evaluation with the exception of assessment area concentration.

Community development loans, investments, and services were reviewed for the period following the previous evaluation.

## **LENDING TEST**

### **Scope of Test**

The lending test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by considering an institution's home mortgage, small business, small farm, and community development lending. The institution's lending performance is evaluated pursuant to the following criteria: 1) the volume of lending activity; 2) the proportion of lending within the assessment area(s); 3) the dispersion of loans and the number and amount of loans in low-, moderate-, middle- and upper-income geographies in the assessment area(s); 4) the distribution of loans among borrowers of low-, moderate-, middle- and upper-income levels and businesses (including farms) of different sizes; 5) the distribution of small business and small farm loans by loan amount at origination; 6) the volume of community development lending; and (7) the use of innovative or flexible lending practices. Performance under the lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

## Lending Activity

This performance criterion considers the volume of Doral Bank's lending. The bank's lending levels reflect an excellent responsiveness to assessment area credit needs.

In 2004, Doral Bank was ranked the fourth largest originator of home mortgage loans among the 68 reporters in its assessment area by number volume and the first by dollar volume. The bank's market share was 10.03 percent by number volume and 14.49 percent by dollar amount. The bank's average HMDA loan amount was \$152,000. Market share and ranking information for 2005 was not available as of this writing.

The 2004 market share of Doral Bank and its affiliates (mortgage subsidiaries of Doral Financial Corporation) was also reviewed. The market share for Doral Bank with its mortgage affiliates (HF Mortgage Bankers, Doral Mortgage Corporation, Sana Mortgage Bankers, and Centro Hipotecario) was 35.62 percent by number volume and 38.83 by dollar volume.

As of June 30, 2006, the bank's loan-to-deposit ratio was 97.02 percent. The bank's average loan-to-deposit ratio, based on the 11 quarters since the previous CRA evaluation, is 86.93 percent.

Based on the bank's rankings and average loan-to-deposit ratio, lending levels reflect excellent responsiveness to overall assessment area credit needs.

## Assessment Area Concentration

Doral Bank originates a substantial majority of loans in its assessment area. Table C illustrates the number and dollar volume of loans originated by the bank both inside and outside of its overall assessment area.

Table C - Distribution of Loans Inside and Outside of the Assessment Areas										
Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
HMDA										
2004	14,711	99	98	1	14,809	2,099,541	99	19,997	1	2,119,538
2005	17,170	98	308	2	17,478	2,308,001	98	40,563	2	2,348,564
<b>Subtotal</b>	<b>31,881</b>	<b>99</b>	<b>406</b>	<b>1</b>	<b>32,287</b>	<b>4,407,542</b>	<b>99</b>	<b>60,560</b>	<b>1</b>	<b>4,468,102</b>
Consumer										
2004	7,153	100	6	<1	7,159	84,059	100	34	<1	84,093
2005	7,846	100	2	<1	7,848	94,523	100	2	<1	94,525
<b>Subtotal</b>	<b>14,999</b>	<b>100</b>	<b>8</b>	<b>&lt;1</b>	<b>15,007</b>	<b>178,582</b>	<b>100</b>	<b>36</b>	<b>&lt;1</b>	<b>178,618</b>
<b>Total</b>	<b>46,880</b>	<b>99</b>	<b>414</b>	<b>1</b>	<b>47,294</b>	<b>4,586,124</b>	<b>99</b>	<b>60,596</b>	<b>1</b>	<b>4,646,720</b>

Source: 2004 and 2005 HMDA LARs, 2004 and 2005 CRA small business registers

## HMDA Lending

The bank's in assessment area HMDA lending, both by number and dollar volume, remained steady over the two-year period of this evaluation, while the bank's total asset size increased more than 200 percent during the same period. The bank's HMDA loan originations rose proportionately to the bank's asset growth. In the two years of the evaluation, the bank's in-area HMDA loan originations remained constant at over 99 percent of the total HMDA lending, by number, and by dollar volume. The bank's HMDA loan penetration inside the assessment area, by number and dollar volume, constituted a significant majority throughout the two years of this review.

Table D that follows further delineates the various types of HMDA loans originated by the bank for the two years of the evaluation. As noted in the table, the percentage within the loan categories between the years remained fairly constant with only a slight increase in refinance activity and a slight decrease in home purchase, home improvement and multi-family activity, as a percent of total HMDA loans.

<b>Table D – Distribution of HMDA Loans Inside the Assessment Area</b>						
<b>Loan Category or Type</b>	<b>2004</b>		<b>2005</b>		<b>Total</b>	
	<b>Number of Loans</b>		<b>Number of Loans</b>		<b>Number of Loans</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Home Purchase</b>	7,616	44.36	6,479	44.04	14,095	44.21
<b>Refinance</b>	8,723	50.80	7,684	52.23	16,407	51.46
<b>Home Improvement</b>	788	4.59	541	3.68	1,329	4.17
<b>Multi-Family</b>	43	0.25	7	0.05	50	0.16
<b>Total</b>	<b>17,170</b>	<b>100</b>	<b>14,711</b>	<b>100</b>	<b>31,881</b>	<b>100</b>

Source: 2004 and 2005 HMDA LARs)

## Consumer Lending

Doral Bank collected consumer loan data for the two years of this evaluation. The consumer loan data collected included primarily credit card, secured, unsecured, and other consumer loans. The percentage of consumer loans within the assessment area was 100 percent.

## **Geographic Distribution of Loans**

This segment of the performance evaluation assesses the bank's performance in addressing the credit needs in low-, moderate-, middle-, and upper-income census tracts in the bank's assessment area. The bank's assessment area contains 818 census tracts, of which, 21 (2.57

percent) are low-income, 197 (24.08 percent) are moderate-income, 382 (46.70 percent) are middle-income, and 217 (26.53 percent) are upper-income. There was 1 census tract (0.1 percent) that did not have income figures available; indicating that particular tract was not populated.

Bank management requested that lending activity for its affiliates be analyzed. Therefore, going forward in this evaluation, the numbers analyzed will include Doral Bank and the four mortgage subsidiaries of Doral Financial Corporation. It is important to note, however, that when verifying Doral Bank's 2005 HMDA LAR, it was determined that at least 2,200 loans were omitted, therefore, what is analyzed is only a portion of the bank's HMDA loans.

Doral Bank and its four affiliates combined demonstrate an adequate penetration of HMDA loans throughout the four income level census tracts. Consumer loans also demonstrate adequate penetration throughout the assessment area.

### HMDA Lending

A review of the bank's performance, and that of the aggregate, based on an analysis of supporting data obtained from standard industry software, was performed to consider the bank's geographic distribution of HMDA lending for 2004 and 2005. The bank's HMDA lending is compared to the total owner-occupied housing units within each census tract category and aggregate lending data for year 2004. Aggregate lending data represents the performance of all other mortgage lenders who reported originating a HMDA loan in the bank's assessment area during 2004. Aggregate data for calendar year 2005 was not available at the time of this evaluation. Please refer to Table E for details.

The aggregate lending data in 2004 reveals that 0.64 percent of the HMDA loans reported by all HMDA reporters in the assessment area were made in low-income census tracts and 15.39 percent of the HMDA loans reported by all HMDA reporters were made in moderate-income census tracts. The bank's percentage of loans in low-income census tracts (0.61 percent) is only slightly less than the aggregate data and the percentage of total owner occupied housing units in the assessment area. However, the bank's percentage of loans in the moderate-income census tracts was further below aggregate data and significantly below the percentage of owner occupied housing units in the assessment area.

Loans in middle-income census tracts (38.42 percent) was below the aggregate (42.56 percent) and loans in upper-income census tracts (47.65 percent) was above the aggregate (41.32 percent), indicating the bank focused its lending to upper-income census tracts more than any other census tract and more than the average of all banks combined (aggregate data).

No aggregate data is available for 2005, but the bank's performance in lending to borrowers in low-income census tracts decreased to 0.50 percent, while lending in moderate-income census tracts increased slightly to 13.61 percent from 13.32 percent. Lending in middle-income census tracts increased to 40.36 percent. Lending to the upper-income census tracts declined from 47.65 percent to 45.53 percent showing that in 2005, there was slightly less of a focus on upper-income census tracts.

<b>Table E – Geographic Distribution of HMDA Loans by Income Category of the Census Tract</b>									
<b>Census Tract Income Level</b>	<b>% of Total Owner-Occupied Housing Units</b>	<b>Aggregate Lending Data (% of #)</b>		<b>2004</b>		<b>2005</b>		<b>Total</b>	
		<b>2004</b>	<b>2005</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	0.80	0.64	NA	252	0.61	166	0.50	418	0.56
<b>Moderate</b>	21.45	15.39	NA	5,489	13.32	4,479	13.61	9,968	13.45
<b>Middle</b>	49.90	42.56	NA	15,830	38.42	13,279	40.36	29,109	39.28
<b>Upper</b>	27.85	41.32	NA	19,631	47.65	14,980	45.53	34,611	46.71
<b>\$0/NA Income</b>	0	0.09	NA	0	0	0	0	0	0
<b>Total*</b>	<b>100</b>	<b>100</b>	<b>NA</b>	<b>41,202</b>	<b>100</b>	<b>32,904</b>	<b>100</b>	<b>74,116</b>	<b>100</b>

Source: U.S. Census, HMDA Disclosure Statements (2004), HMDA LAR (2005), and HMDA Aggregate Data

\* Total percentage may not add to 100 due to rounding.

### Consumer Loans

Doral Bank collects and maintains loan origination data for consumer loans. A bank that collects this data maintains the information, but it is not submitted for central reporting purposes. The bank may request that the data be considered in its CRA evaluation. Doral Bank has collected this information for 2004 and 2005, and has presented the data for review as part of its CRA evaluation. There is no aggregate data available for this category of loans since collection of the data is optional. However, one benchmark to measure the opportunities for the bank to originate consumer loans in a particular census tract is the percentage of households in each income level census tract. The percentage of households is presented, along with the bank's consumer loan data for 2004 and 2005 in Table F.

The bank's low-income census tracts contain only 1.93 percent of the total households in the bank's assessment area. Considering this limited opportunity, the bank originated 0.77 percent of its total consumer loans in these low-income census tracts during the two-year period of which the data was collected. The loan penetration is on a downward trend from 2004 to 2005.

Doral Bank's performance in originating consumer loans in moderate-income census tracts (15.53 percent) for the two year period was less than the percentage of total households in that census tract category (22.49 percent). However, the loan penetration is on an upward trend from 2004 to 2005 and represents an effort by the bank to reach this census tract category.

The bank's consumer loan penetration in the middle-income census tracts for the two years of data submitted reveal 42.85 percent of all consumer loans were made to borrowers in middle-

income census tracts. This performance is less than the percentage of middle-income households in this census tract category. However, when reviewing the bank's percentage of loans to upper-income census tracts, the bank's two year average shows that the bank's penetration of 40.85 percent is significantly greater than the 26.75 percent of total households in the assessment area. Based on the above, Doral Bank is focusing more attention on the upper-income census tracts versus any of the other census tracts.

<b>Table F – Distribution of Consumer Loans by Income Category of the Census Tract</b>									
<b>Census Tract Income Level</b>	<b>% of Total Households</b>	<b>Aggregate Lending Data (% of #)</b>		<b>2004</b>		<b>2005</b>		<b>Total</b>	
		<b>2004</b>	<b>2005</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	1.93	NA	NA	59	0.82	57	0.73	116	0.77
<b>Moderate</b>	22.49	NA	NA	1,015	14.19	1,315	16.76	2,330	15.53
<b>Middle</b>	48.83	NA	NA	2,842	39.73	3,584	45.68	6,426	42.85
<b>Upper</b>	26.75	NA	NA	3,237	45.25	2,890	36.83	6,127	40.85
<b>Total*</b>	<b>100</b>	<b>NA</b>	<b>NA</b>	<b>7,153</b>	<b>100</b>	<b>7,846</b>	<b>100</b>	<b>14,999</b>	<b>100</b>

Source: U.S. Census, CRA Data Collection (2004 and 2005)

\* - Total percentage may not add to 100 due to rounding.

## Borrower Characteristics

This category evaluates the bank's record of lending to low-, moderate-, middle-, and upper-income borrowers. This performance criterion considers the distribution, in the bank's assessment area, of the bank's HMDA and consumer loans based on borrower characteristics, including the number of home mortgage and consumer loans to low-, moderate-, middle-, and upper-income individuals.

Doral Bank's HMDA lending among retail borrowers of different income levels is poor; and the bank's consumer lending to borrowers of different income levels is adequate.

## HMDA Lending

This category discusses the bank's HMDA lending for 2004 and 2005 and compares it to the percentage of total families within each income category and the aggregate lending data. Aggregate data for calendar year 2005 was not available at the time of this evaluation. Borrower incomes are compared to Department of Housing and Urban Development (HUD) adjusted median family income figures for the year in which the loans were granted. These figures can be obtained at HUD's web site – [www.huduser.org](http://www.huduser.org). Table G below, contains the 2004 and 2005 HUD Adjusted Incomes for those MSAs that comprise the bank's assessment area.

<b>Table G – HUD Adjusted Income by MSA</b>			
<b>MSA</b>	<b>Name</b>	<b>2004</b>	<b>2005</b>
10380	Aguadilla	\$14,800	\$15,000
25020	Guayama	\$15,900	\$16,300
32420	Mayaguez	\$18,200	\$18,350
38660	Ponce	\$17,200	\$17,400
41900	San German	\$17,200	\$17,400
41980	San Juan	\$20,600	\$20,900
49500	Yauco	\$14,800	\$15,100
Non-MSA	Non-MSA	\$14,100	\$14,250

*Source: US Department of Housing and Urban Development*

Based on 2004 data, Doral Bank and its affiliates are leaders in the market; however, this leadership is not reflected in the percentage of loans to low- and moderate-income borrowers. For example, Doral Bank and its affiliates captured 38 percent of the loans to upper-income borrowers, but only 12.6 percent of loans to low-income borrowers.

In 2004, Doral Bank and its affiliates originated 0.35 percent of all HMDA loan originations to low-income borrowers and 3.27 percent of all HMDA loan originations to moderate-income borrowers. This penetration percentage falls well behind the aggregate lending performance for the same borrower income level groups. The bank's lending to middle-income borrowers in 2004 was 10.08 percent, which is also well short of the aggregate lending performance.

The bank's loan penetration to low-income borrowers increased in 2005. Lending to moderate-income borrowers decreased slightly to 3.19 percent, while lending to middle-income borrowers increased slightly to 10.66 percent. There is no aggregate data available for 2005 to gauge precisely how this performance rates relative to other lenders in the assessment area. The overall volume of loans has almost doubled since the last examination. While activity to low-income borrowers has increased and is on an upward trend, it continues to be far less than aggregate data. Activity to moderate-income borrowers has also increased since the last examination; however, it continues to be below aggregate.

The opportunities for Doral Bank to originate HMDA loans to low- and moderate-income borrowers is reflected in the percent of total families within each borrower income level in the assessment area. This group constitutes the available pool of potential borrowers. However, when evaluating the bank's HMDA loan performance in lending to low- and moderate-income borrowers, consideration must be given to the affordability ratio described earlier in this evaluation. The calculated affordability ratio of 0.20 demonstrates very poor housing affordability. The low affordability ratio is primarily caused by the high housing costs in the bank's assessment area relative to the median incomes in the area. These factors make HMDA loans to low- and moderate-income borrowers difficult to originate.

It is recognized that the cost of housing in Puerto Rico often makes it difficult for low-, moderate-, and middle-income individuals to qualify for mortgages. However, the bank's performance versus the aggregate to low-, moderate-, and middle-income borrowers indicates that the bank needs to improve the overall level of lending to borrowers in these income categories.

<b>Table H – Distribution of HMDA Loans by Borrower Income</b>									
<b>Borrower Income Level</b>	<b>% of Total Families</b>	<b>Aggregate Lending Data (% of #)</b>		<b>2004</b>		<b>2005</b>		<b>Total</b>	
		<b>2004</b>	<b>2005</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	25.83	1.09	NA	144	0.35	162	0.49	306	0.41
<b>Moderate</b>	15.25	6.04	NA	1,347	3.27	1,048	3.19	2,395	3.23
<b>Middle</b>	15.97	14.17	NA	4,154	10.08	3,508	10.66	7,662	10.34
<b>Upper</b>	42.95	75.97	NA	29,409	71.38	24,254	73.71	53,663	72.42
<b>\$0/NA Income</b>	0	2.73	NA	6,148	14.92	3,932	11.95	10,080	13.60
<b>Total*</b>	<b>100</b>	<b>100</b>	<b>NA</b>	<b>41,202</b>	<b>100</b>	<b>32,904</b>	<b>100</b>	<b>74,106</b>	<b>100</b>

Source: U.S. Census, HMDA Disclosure Statements (2004), HMDA LAR (2005), and HMDA Aggregate Data \* - Total percentage may not add to 100 due to rounding.

### Consumer Loans

As previously discussed, the collection of data for consumer loans is optional. A bank that collects this data maintains the information, but it is not submitted for central reporting purposes. The bank may request that the data be considered in its CRA evaluation. Doral Bank has collected consumer loan information for 2004 and 2005 and has presented the data for review as part of its CRA evaluation. There is no aggregate data available for this category of loans since collection of the data is optional. However, one benchmark to measure the opportunities for the bank to originate consumer loans to a particular borrower income level is the percentage of households in each borrower income level. The percentage of households is presented, along with the bank's consumer loan data for 2004 and 2005 in Table I below. Doral Bank has an adequate distribution of consumer loans among borrowers of different income levels.

The bank's consumer loan penetration to low-income borrowers of 2.63 percent in 2004 and 2005 combined falls well short of the percentage number of total low-income households in the bank's assessment area.

The total of consumer loans made to moderate-income borrowers is better. A total of 14.78 percent of the households in the bank's assessment area are moderate-income. In 2004 and 2005 combined, the bank made 11.82 percent of its consumer loans to moderate-income



borrowers. Lending to moderate-income borrowers is considered adequate for both years in which consumer loan data was collected, in view of the fact that the percentage of loan originations was much closer to the comparative percentage of households within the assessment area that are classified as moderate-income.

Doral Bank performed well originating loans to middle-income borrowers for the two years. In 2004, the bank originated 21.36 percent of its consumer loans to middle-income borrowers. This percentage is significantly greater than the percentage of middle-income households in the bank's assessment area (14.88 percent). Furthermore, the bank increased its loan penetration to this group to 25.63 percent in 2005.

<b>Table I – Distribution of Consumer Loans by Borrower Income</b>									
<b>Borrower Income Level</b>	<b>% of Total Households</b>	<b>Aggregate Lending Data (% of #)</b>		<b>2004</b>		<b>2005</b>		<b>Total</b>	
		<b>2004</b>	<b>2005</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	26.71	NA	NA	110	1.54	285	3.63	395	2.63
<b>Moderate</b>	14.78	NA	NA	690	9.65	1,083	13.80	1,773	11.82
<b>Middle</b>	14.88	NA	NA	1,528	21.36	2,011	25.63	3,539	23.59
<b>Upper</b>	43.64	NA	NA	4,687	65.52	4,403	56.12	9,090	60.61
<b>\$0/NA Income</b>	0	NA	NA	138	1.93	64	0.82	202	1.35
<b>Total*</b>	<b>100</b>	<b>NA</b>	<b>NA</b>	<b>7,153</b>	<b>100</b>	<b>7,846</b>	<b>100</b>	<b>14,999</b>	<b>100</b>

Source: U.S. Census, CRA Data Collection (2004 and 2005) \* - Total percentage may not add to 100 due to rounding.

### **Community Development Lending**

The institution's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent of leadership the institution has demonstrated in community development lending.

Doral Bank is a leader in making community development loans. During this evaluation period, the bank originated 45 loans amounting to \$326.4 million. A brief description of each of these loans is as follows:

**2003** (June – December) – 11 loans totaling \$102.6 million

- 1) A \$6.1 million loan to construct 119 Act 124 residential units in the Patillas area. The units will be sold for \$70,000. The Act 124 Subsidy Program, of the Puerto Rico Housing and Finance Agency, subsidizes the permanent mortgage interest, and part of the down payment. Also, the program establishes the maximum expected sales price for the units and it is intended to help first time low to moderate-income homebuyers.
- 2) A \$6.7 million loan to construct 118 Act 124 residential units in Arroyo. All units are single detached and will be sold for \$70,000.
- 3) A \$4.3 million loan to construct 87 Act 124 residential units. All units will be sold for \$70,000.
- 4) A \$6.4 million loan for the construction of 105 housing units. Sixty-five units will be sold under the FHA program for the price of \$85,000 and 40 will be sold under Act 124 at \$70,000.
- 5) A \$3.7 million loan for the construction of 220 housing units in Mayaguez. HOME funds were assigned to the project in a total amount of \$692,000. The selling price of the units will be \$65,000.
- 6) A \$1.3 million loan for the construction of 18 walk up condominium units distributed in a three story building. The sales price of \$155,000 will be converted into an affordable unit with the assistance of HOME funds of \$40,000 per unit. The project is located in Santurce, a low income community, which is part of the special communities program of the Government of Puerto Rico.
- 7) A \$1.1 million loan for the construction of 15 walk-up condominium units distributed in a three story building. The sales price of \$155,000 will be converted into an affordable unit with the assistance of HOME funds of \$40,000 per unit. The project is located in Santurce, a low-income community, which is part of the special communities program of the Government of Puerto Rico.

8) A \$12.2 million loan for the construction of 220 single detached low-income residential units located in the Puente Sector of the Jobos Ward in Guayama. The project was endorsed by the Puerto Rico Housing Bank and Finance Agency and qualified as a low-income social interest development under Law 47 and the New Housing Program. Of the units, 165 will be sold at \$70,000 and the remaining 55 units will be sold at \$85,000.

9) A \$20.6 million loan to construct 350 single family dwellings of which 261 will be under Act 124. The development is located in Factor Ward in Arecibo. The average selling price is \$79,000.

10) A \$20.2 million loan to construct 373 single detached housing units in Arenales Ward in Aguadilla. The project is being sponsored by Act 124 and the FHA program. The selling price is \$72,000.

11) A \$20 million loan to construct 348 housing units sponsored by Act 124 and FHA, combined with the Key to Your Home program. The units are located in Arecibo and the maximum selling price is \$85,000.

**2004 - 11 loans totaling \$111.9 million**

1) A \$12.4 million loan for the construction of 230 housing units located in the Dagua Ward in the Municipality of Naguabo. The units will be sold under the Act 124 subsidy program and the average selling price will be \$77,000.

2) A \$10 million loan for the construction of 158 housing units located in the Santiago and Lima Ward in the Municipality of Naguabo. The units will be sold under the Act 124 subsidy program and the average selling price will be \$70,000.

3) A \$6.6 million loan for the purchase and renovation of a building that will consist of 90 units offered under the government subsidy program, The Key to Your Home. The selling price will be \$85,000.

4) A \$23.6 million loan to be used for the construction of 387 single detached dwellings under the Act 124 government subsidy program. The project is located in the Algarrobos Ward, in the Municipality of Guayama.

5) An \$11.5 million loan to be used for the construction of 207 housing units in the Godreau Ward in the Municipality of Salinas. The units will be sold under the Act 124 government subsidy program with prices ranging from \$80,000 to \$90,000.

6) A \$5 million loan to construct 128 housing units in the La Sierrita Sector, Vacas Ward, in the Municipality Villalba. The project will be developed by combining the Act 124 government subsidy and FHA program. The units will be sold at prices ranging between \$80,000 to \$85,000.

7) A \$5 million loan to construct 74 units under the Act 124 government subsidy program. The units will be sold for \$100,000 each.

8) A \$4.3 million loan for the construction of 81 housing units located at the Ancones & Palmas Ward in the Municipality of Arroyo. The units will be sold under the Act 124 government subsidy program with an average sales price of \$76,420.

9) An \$11.2 million loan to be used for the construction of 181 housing units located at the Jacao and Cacao Wards in the Municipality of Patillas. They will be sold under the Act 124 government subsidy program with an average selling price of \$80,000.

10) A \$17.7 million loan for the construction of 270 walk-up units. The units will be sold at an average selling price of \$85,000. The Municipality of Carolina donated the property to the borrower through funds from the Federal Government's HOME Program. In exchange, the units must be sold in compliance with HOME program requirements.

11) A \$4.6 million loan for the construction of 72 walk-up units. The units will be sold at an average selling price of \$80,000. The Municipality of Carolina donated the property to the Borrower through funds from the Federal Government's HOME Program. The Municipality of Carolina will screen each applicant before selling of the units, in order to reserve units for low to moderate income homebuyers.

#### **2005 – 16 loans totaling \$74.2 million**

1) A \$550,000 loan to a non profit organization that services HIV/AIDS patients and their families and provides homes for low income families. The organization has developed land located in Ponce. This loan was obtained to finance the acquisition of property to develop a 36 housing unit project to low income families under the parameters of the Section 8 HUD program.

2) A \$1.6 million loan to a post-secondary educational institution, that offers bachelor, associate, as well as technical degrees in various disciplines. The bank was a co-lender in this project with the Government Economic Development Bank. The purpose of the loan was to acquire the property and to build additional classrooms and a workshop for mechanics. The property was a former hospital complex, abandoned and located in moderate-income area.

3) A \$3.7 million loan to finance the acquisition of a property located in Old San Juan and to develop, rehabilitate, convert and expand a hotel facility. The rehabilitation/conversion will increase room capacity and services available, creating employment for low to moderate income individuals. Furthermore, the project was financed in agreement with SBA. SBA guaranteed the 20 year debenture for approximately \$1.2 million.

4) A \$2.3 million loan to redevelop a shopping center and increase the tenant capacity. The proposed development has the pertinent government approval for the tax credit incentive under Act 112, relating to revitalization of urban centers and areas of low- and moderate-income communities. The property is located near the center of Caguas City urban area; in a moderate-income census tract.

- 5) A \$75,000 loan to finance a non profit organization's working capital needs until the entity received the proceeds from the federal funds assigned by the Student Financial Assistance under the Title IV programs administered by the HUD Department of Education.
- 6) A \$3.8 million loan to be used for the construction of a low-income housing project in Carolina. The project will consist of 54 walk-up apartments. Units will be sold under the HOME program of the Municipality of Carolina. The Municipality will donate the project site and the development will receive HOME funds in the amount of \$690,000. The average selling price will be \$90,000 per unit.
- 7) A \$3.6 million loan to be used for the construction of a low-income housing project in Carolina. The project will consist of 54 walk-up apartments at an average price of \$80,000 per unit. The Municipality of Carolina donated the parcel of land.
- 8) A \$2 million loan to assist in the acquisition of a parcel of land to construct units under the Act 124 housing program in Ancones Ward in Arroyo. This area is a moderate income area with many subsidized housing developments.
- 9) A \$3.5 million loan to provide for funding of 64 single detached dwellings, Act 124 and FHA eligible units in Naguabo, Santiago and Limas Ward, Naguabo. The units will be sold at a price of \$80,000 per unit.
- 10) An \$8.4 million loan to provide funding for the construction of 129 Act 124 units in Lares. The project has a HOME subsidy of \$2.6 million that will be used to cover construction costs. Potential buyers of the units will receive a subsidy of up to \$20,000 per unit.
- 11) A \$12.5 million loan to fund the development and construction of 200 housing units at Palmarejo Ward, Coamo. The units will be sold with the Act 124 subsidy program at a price of \$80,000 per unit.
- 12) An \$11.9 million loan to finance the development and construction of a 211 single detached residential project. The units will be sold at an average selling price of \$80,000 and is to be sponsored under the Act 124 and FHA programs.
- 13) A \$1.2 million loan to a non-profit organization that provides housing facilities. The loan will assist with the necessary funds to acquire and remodel a three story abandoned property located in Pueblo Ward, San Juan. This project falls under the Puerto Rico Urban Center Rehabilitation Laws receiving tax credits of approximately \$318,000. The project also stabilizes the neighborhood.
- 14) A \$3.6 million loan to assist with the necessary funds to acquire and remodel a property located in Pueblo Ward, San Juan. This project falls under the Puerto Rico Urban Center Rehabilitation Laws and receives tax credits. It also stabilizes the neighborhood. The loan is to finance the conversion of the building to a 42 apartment unit building plus an office area.
- 15) A \$2.7 million loan for 48 Act 124 units, walk-up style project located at Buena Vista Ward, Municipality of Humacao.

16) A \$12.8 million project for the development and construction of 223 single detached residential units. Units will be sold at an average of \$74,000 and will be sponsored under the Law 124 and FHA programs.

**2006** (January – June) – 7 loans totaling \$37.7 million

1) An \$11.9 million loan to be used for the development and construction of the second phase of a project that contains 176 walk-up units, sponsored by the Act 124 program, the HOME program and by the Municipality of Carolina. The units will be sold at an average selling price of \$85,000. The Municipality of Carolina donated the property to the Borrower through funds from the Federal Government's HOME Program. In exchange, the units must be sold in compliance with HOME program requirements.

2) An \$8.6 million loan to be used for the purchase and construction of 148 Act 124 housing units. The project is located in Machete Ward in Guayama. The units will be sold at an average selling price of \$83,000.

3) A \$5.8 million loan to provide the necessary funding to construct 72 Act 124 walk up units in the Fajardo area. The selling price of the units are \$90,000.

4) A \$7 million loan to be used for the construction of 115 single family units, all sponsored by Act 124 in the Jaguas and Cacao Ward, Patillas. The average selling price of the units is \$82,000.

5) A \$928,000 loan to finance the development of 12 walk-up units project located at Cañas Ward, Ponce. This project is sponsored by Act 212 and has an approved Tax Credit of \$637,000. Please refer to a description in the Innovative and Lending section of the evaluation for an explanation of Act 212.

6) A \$2 million loan increase for a project sponsored by Act 124 and FHA, consisting of 348 single family dwellings. The original community development loan was granted in 2003 for the amount of \$20 million.

7) A \$1.4 million increase for a project sponsored by Act 124, consisting of 206 single detached units, located in Bejucos Ward, Municipality of Isabela. The original community development loan was granted in 2003 for the amount of \$11.9 million.

## Innovative or Flexible Lending Practices

The institution's innovative and flexible lending practices are evaluated pursuant to the following criteria: 1) the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and 2) the success of each product serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.

The bank makes extensive use of innovative and/or flexible lending practices in order to serve assessment area credit needs. The following are the innovative and flexible loan programs that the bank and its affiliates participate in:

<b>Table J - Innovative or Flexible Lending Practices</b>		
<b>PROGRAM</b>	<b>NUMBER OF LOANS</b>	<b>DOLLAR VOLUME OF LOANS</b>
Act 124 – Subsidized Affordable Housing	1,446	\$93,356,933
Law 87 – Mortgage Insurance Program	639	\$48,446,438
Act 212 – Rehabilitation of Urban Areas	2	\$803,080
The Key to Your Home	5,825	\$344,742,451
New Secure Housing	241	\$2,336,657
Section 8 Homeownership	24	\$1,537,516
Dept. of Housing of Puerto Rico – Privatization of Public Housing Units)	203	\$5,272,123
My Community Loans	14	\$1,704,710
Doral Cash	48	\$52,223
HOME Investment Partnership Program (HOME Program)	219	\$11,294,787
Federal Housing Administration (FHA)	7,382	\$603,589,000
Veteran's Administration (VA) Loans	360	\$45,196,000
Small Business Administration (SBA) Loans (7A)	53	\$6,407,950
Small Business Administration (SBA) Loans (504)	65	\$45,187,827
<b>Grand Total</b>	<b>16,521</b>	<b>\$1,209,927,695</b>

Source: Bank Records

## **ACT 124 – SUBSIDIZED AFFORDABLE HOUSING**

The Act 124 loan program was designed to stimulate the construction and sale of owner-occupied housing units to low and moderate-income families through private sector participation. For a detailed explanation of the Act 124 Program, refer to the performance context section of this public evaluation. Doral Bank is actively involved with the Act 124 Program and has provided numerous loans under this program. Refer to the previous table for the number and dollar amount of loans originated under this program.

## **LAW 87 SUBSIDIZED MORTGAGE**

Another localized program in which the bank participates is Law 87, which provides for a 100 percent guarantee of mortgage loans to low- and moderate-income persons or families. The guarantees are provided by the Puerto Rico Housing Finance Authority. For a detailed explanation of this program, refer to page 12 of this evaluation.

## **LAW 212: INCENTIVES FOR THE REHABILITATION OF MUNICIPALITIES URBAN CENTERS**

Law number 212 of August 29, 2002, as amended, provides a series of incentives aimed at the repopulation, strengthening and revitalization of Urban Centers. These incentives are offered based on the creation of jobs, improvements or new construction projects in the Urban Centers. The Municipalities are responsible for delimitating the zones according to their Rehabilitation Plan. The incentives created by the Act include the following: 1) incentives for the Creation for Employment, 2) incentives for improvements or new construction, 3) special incentives for housing construction projects and 4) special incentives for construction projects of parking lots.

## **KEY TO YOUR HOME**

This is a local subsidized housing program targeted toward low- and moderate-income families. This program is called “The Key to Your Home,” which enables families to purchase or rehabilitate their homes through payment subsidies or assistance with down payments and closing costs. The bank agrees to more flexible underwriting standards to participate in this program. On March 29, 2001, Law number 4 was adopted by the Housing Department of the Commonwealth of Puerto Rico. It consists of helping buyers with down payment assistance based on the family income, which ranges from \$3,000 to \$15,000. The applicant must be a first time homebuyer and the property price must not exceed \$90,000.

If the client is eligible the Housing Department will issue a certificate with the approved amount. The bank qualifies and approves the loan, taking into consideration such down payment. Once the loan is closed, the bank prepares an invoice for the amount due to the Housing Department. Once the payment is received, the accounting department makes a credit to the loan.

Doral Bank and HF Mortgage have been very active providing loans under this program. Furthermore, Doral Bank’s personnel provide seminars and orientations about mortgage



qualification requirements at the lobby of the Puerto Rico Housing Authority building, municipalities, public areas and public housing developments.

### **“HOGAR SEGURO” NEW SECURE HOUSING PROGRAM**

On March 5<sup>th</sup>, 2002 Doral Bank entered into a unique and innovative agreement with the Puerto Rico Housing Authority, a subsidiary corporation of the Governmental Development Bank for Puerto Rico to support this initiative. After the effects of Hurricane Georges, the government of Puerto Rico created a program to develop houses to be sold to families affected by the hurricane and to families living in areas subject to slides and floods named New Secure Housing Program (NSHP). The Federal Emergency Management Agency (FEMA) provided 75 percent of the funds for the NSHP and the remaining funds were provided by the local government. Machuelo was the first project developed by the NHSP. Due to the lack of resources and time to comply with FEMA’s deadlines, the PRHFA requested Doral’s cooperation in processing, underwriting, and originating the loans to be granted to the participants. Doral Bank identified the participants, processed, underwrote and originated the loans and sold the loans to the PRHFA at a purchase price of 100% of par of the principal amounts of the loans.

### **SECTION 8 HOMEOWNERSHIP PROGRAM**

This program is a component of HUD’s Section 8 Program that enables qualifying individuals to obtain a subsidy for the purchase of their first home. The Agency will submit the monthly payment subsidy directly to the financial institution that finances the mortgage. The qualifying individuals must be participants of the Section 8 program, they must not own their own home and must earn an annual income of \$10,800 or more. To receive the benefits of the Program the participants must complete a homeownership workshop previously approved by HUD. This Program provides another alternative for low- and moderate-income individuals to purchase their own homes.

### **DEPARTMENT OF HOUSING OF PUERTO RICO – PRIVATIZATION OF PUBLIC HOUSING UNITS**

There is a large segment of the population that does not earn sufficient income to afford home ownership or to make market rate rent payments. Their housing needs are met by the Department of Housing of the Commonwealth of Puerto Rico. They operate approximately 332 public housing projects. Public housing is located throughout the Island. Since 2004, the Department of Housing of Puerto Rico provided to low-income families that were renting a unit and living in Public Housing Projects for decades, in some instances, the opportunity to become homeowners of the unit. The local PHA privatized some public housing projects and sold the units to the residents. Various housing fairs were held to give orientation to the families about homeownership and financing options. The following projects were subject to the program: Residential Las Delicias in Ponce, Residencial Villa de los Santos I y II in Arecibo, Residencial Alturas de Vega Baja, Residencial Alturas de Cibuco in Corozal, Antigua Via in Cupey.

## **FANNIE MAE'S "MY COMMUNITY MORTGAGE"**

Doral Bank offers this mortgage product which is designed for low- to moderate-income families. The bank works with prospective borrowers to consider all types of income and credit histories. Down payment and closing costs can come from a variety of sources.

## **DORAL CASH**

In 2004, Doral Bank launched Doral Cash in an effort to provide a community consumer loan program for low- and moderate-income individuals. The program offers a more flexible consumer loan product to low- and moderate-income individuals with a low credit score rate. With this program, Doral Bank offers a loan with extremely affordable parameters, including an interest rate below that offered by other banks and finance companies. Low- to moderate-income individuals, whose incomes do not exceed \$1,099 monthly (or \$13,188 annually), can apply for a loan of up to \$3,000 with a fixed interest rate of 8.95%. The minimum loan amount is \$1,000, minimum credit score is 600 and the loan term can fluctuate from 12 to 36 months.

## **FEDERAL HOUSING ADMINISTRATION (FHA) INSURED LOANS**

Unlike conventional loans that adhere to strict underwriting guidelines, FHA-insured loans require very little cash investment to close a loan. There is more flexibility in calculating household income and payment ratios. The cost of the mortgage insurance is passed along to the homeowner and typically is included in the monthly payment. In most cases, the insurance cost to the homeowner will drop off after five years or when the remaining balance on the loan is 78 percent of the value of the property, whichever is longer.

## **VETERAN'S ADMINISTRATION (VA) GUARANTEED LOANS**

The VA loan provides veterans with a federally guaranteed home loan with no down payment. VA guaranteed loans are made by private lenders, such as banks or mortgage companies to eligible veterans for the purchase of a home, which must be for their own personal occupancy. The guaranty means the lender is protected against loss if the borrower or a later owner fails to repay the loan. The guaranty replaces the protection the lender normally receives by requiring a down payment allowing the borrower to obtain favorable financing terms.

## **SMALL BUSINESS ADMINISTRATION (SBA) LENDING PROGRAMS:**

Doral Bank is a certified lender for the U.S. Small Business Administration, and participates in the 7a Loan and Low Doc programs and the 504 Program.

The CDC/504 loan program is a long-term financing tool for economic development within a community. The 504 Program provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. A Certified Development Company (CDC) is

a nonprofit corporation set up to contribute to the economic development of its community. CDCs work with the SBA and private-sector lenders to provide financing to small businesses. Each CDC covers a specific geographic area.

Typically, a 504 project includes a loan secured with a senior lien from a private-sector lender covering up to 50 percent of the project cost, a loan secured with a junior lien from the CDC (backed by a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost, and a contribution of at least 10 percent equity from the small business being helped.

The 7(a) loan program is the most basic and most used type of SBA's business loan programs. Its name comes from section 7(a) of the Small Business Act, which authorizes the Agency to provide business loans to American small businesses. All 7(a) loans are provided by lenders who are called participants because they participate with SBA in the 7(a) program. The 7(a) loans are only available on a guaranty basis. This means they are provided by lenders who choose to structure their own loans by SBA's requirements and who apply and receive a guaranty from SBA on a portion of this loan. The SBA does not fully guarantee 7(a) loans. The lender and SBA share the risk that a borrower will not be able to repay the loan in full. The guaranty is a guaranty against payment default. It does not cover imprudent decisions by the lender or misrepresentation by the borrower.

#### **HOME INVESTMENT PARTNERSHIP PROGRAM (HOME PROGRAM)**

The HOME program is one of the most flexible tools communities have to address affordable housing needs. HOME funds can be used to provide home purchase or rehabilitation financing assistance to low-income homeowners and new homebuyers through, for example: direct loans, help with down payments or closing costs and loan guarantees or other forms of credit enhancement. A further explanation of this program is discussed on page 12 of this evaluation.

## **INVESTMENT TEST**

### **Scope of Test**

The investment test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through its use of qualified investments that benefit the assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s). Activities considered under the lending or service test may not be considered under the investment test. The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors.

Doral Bank has an adequate level of qualified community development investments and grants that respond to credit and community economic development needs. Community development investments and donations made during the evaluation period of \$14.8 million, in addition to \$14 million in previously qualified investments retained in the investment portfolio, results in a total of \$28.8 million in investments with a community development purpose. These investments represent 0.27 percent of total assets, 0.51 percent of securities; and 5.8 percent of equity capital, as of June 30, 2006. Securities represent 53.5 percent of total assets and have increased 151.3 percent since the previous evaluation. Despite this significant increase, the amount of community development investments as a percent of securities has declined from 1.13 percent at the previous evaluation to the current level of 0.51 percent.

During the evaluation period, the bank purchased the following investments totaling \$13.9 million:

In November 2003, the bank purchased a \$5 million share of a \$234.2 million bond issued by the Commonwealth of Puerto Rico (2003 Special Obligation Bond Series 2003). These bonds were issued under Act 100 to initiate several capital improvements programs dedicated to public transportation, hospitals, schools, development of projects to control flood, municipal infrastructure development and housing construction, improvement and subsidies throughout the Island.

In November 2004, the bank purchased a \$3.9 million share of a \$93.8 million general obligation improvement bond (Public Improvement Bonds of 2005, Series B) issued by the Commonwealth of Puerto Rico. The net proceeds of the bonds will be used to reimburse the Government Development Bank for advances made to fund grants to qualified homeowners under Act No. 124 of December 10, 1993 as amended.

In April 2006, the bank purchased a \$5 million share of a \$246 million Affordable Housing Mortgage Subsidy Program Bond (Single Family Mortgage Revenue Bond, Portfolio X) issued by the Puerto Rico Housing Finance Authority. These bonds will be issued to finance the purchase of GNMA certificates, FNMA certificates or FHLMC Certificates, collectively the "Mortgage Certificates," backed by pools of qualified mortgage loans originated by mortgage lenders and made to persons and families of low income for the acquisition of qualifying

properties in Puerto Rico. Under the program, mortgage loans must be originated to finance the acquisition by low-income families of newly constructed or substantially rehabilitated single family homes. Each Mortgage loan underlying a Mortgage Certificate must be secured by a mortgage which constitutes a valid first lien on the property financed by such mortgage loan.

In addition to the aforementioned investments, Doral Bank has also made a concentrated effort to contribute approximately \$900,000 in qualified grants and donations to various community organizations which serve the housing, educational and development needs of the area. Some examples are as follows: 1) A land donation for a Habitat for Humanity project; 2) A contribution to assist the local community housing development organizations association in developing a housing study; 3) Contributions to several community groups, which provide community or affordable housing services targeted to low- and moderate-income individuals, provide economic development services for small businesses, or which stabilize and revitalize low- and moderate-income geographies; 4) Grants and donations to support numerous nonprofit community groups and organizations, charitable programs and events, and community-sponsored campaigns designed to promote community development and support low- and moderate-income individuals; and 5) partnerships with non profit organizations to create an Individual Development Account (IDA) program designed for low- to moderate-income family public school students.

The bank has \$14 million in previously qualified investments that are retained in the investment portfolio.

## **SERVICE TEST**

### **Scope of Test**

The service test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services. The institution's retail banking services are evaluated pursuant to the following criteria: 1) the distribution of the institution's branches among geographies of different income levels; 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- and moderate-income geographies or that primarily serve low- and moderate-income individuals; 3) the availability and effectiveness of alternative systems for delivering retail banking services; and 4) the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies. In addition, the institution's community development services are evaluated pursuant to the following criteria: 1) the extent of community development services offered and used; 2) the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served; 3) the degree to which they serve low- and moderate-income areas or individuals; and 4) their responsiveness to available opportunities for community development services.

The bank's retail delivery systems are readily accessible to all portions of the bank's assessment area, including low- and moderate-income census tracts. Services are tailored to the convenience and needs of the assessment area. The bank is a leader in providing community development services.

Doral Bank operates 43 full service branches throughout the Island of Puerto Rico. The distribution of the bank's branches is detailed in Table K that follows.

Table K - Distribution of Bank Offices by Income Category of the Census Tract				
Census Tract Income Category	Census Tracts in Assessment Area		Bank Offices by Tract Location	
	#	%	#	%
<b>Low</b>	21	2.57	0	0
<b>Moderate</b>	197	24.08	15	34.88
<b>Middle</b>	382	46.70	7	16.28
<b>Upper</b>	217	26.53	21	48.84
<b>\$0/NA Income</b>	1	0.12	0	0
<b>Total</b>	818	100%	43	100%

Source: U.S. Census and Bank Public File, \* Total percentage may not add to 100 due to rounding.

Since the previous evaluation, the bank opened seven new branches: two in moderate-income census tracts and five in upper-income census tracts. During the evaluation period, the bank closed no branches. In fact, no branches have been closed since the bank's inception in 1993.

### **Bank Hours and Retail Services**

The bank's hours and services are considered outstanding. Branch lobby hours at almost all (95 percent) of the branch locations begin at 8:00 a.m. and extend to 6:00 p.m. All branches have Saturday lobby hours and 33 percent have Sunday hours from 11:00 a.m. to 3:00 p.m. The hours of operation exceed those maintained by the competition in the assessment area. Drive-up facilities exist at 26 branches.

### **Alternative Delivery Systems**

Doral Bank maintains a total of 90 Automated Teller Machines (ATMs). These ATMs are located throughout the bank's branch network, in hotels, shopping centers, gas stations and office buildings. Of the ATMs, 40 percent are located in low- and moderate-income census tracts.

The bank operates at least one ATM at each branch office including the branches located in moderate-income census tracts. The bank's customers do not incur fees when using non-proprietary ATMs, nor are non-customers assessed a fee when using Doral Bank's facilities. Doral Bank offers a 24 hour telephone banking system entitled Tele Doral that allows customers to order bank statements, pay bills, make transfers between accounts, apply for loans and receive a description of the bank's products and services.

The bank has a 24 hour Internet banking system that allows customers to access bank accounts, make transfers between accounts, pay bills, view the location of bank branches and other facilities, view the bank's products, services and community activities, and to obtain a loan

application through the bank's mortgage affiliates. The bank's website address is as follows: [www.doralbank.com](http://www.doralbank.com).

Doral Bank is one of five institutions on the Island to provide free accounts for the electronic transfer of social security payments. This service allows senior citizens easy access to their funds and alleviates the trouble of having to deposit their benefit checks. Free ATM services also aid in providing no cost access to benefits. Since the last evaluation, 2,245 Electronic Transfer Accounts (ETA) accounts totaling just over \$1.3 million have been opened.

Doral Bank launched Doral Kids and Doral Boom Accounts to educate kids and adolescents about the importance of saving. Doral Boom offers free ATM use and no service charges. Doral Kids offers free ATM and no service charges. Parents need only \$1 to open the account with proper certificate of birth and social security evidence required. In 2003, the bank launched an advertising campaign at the Auxilio Mutuo Hospital allowing the parents to open an account on behalf of their kids as soon as they were born.

### **Community Development Services**

Doral Bank is a leader in providing community development services to the residents of Puerto Rico. Some of the most significant efforts are described as follows:

During the evaluation period, Doral Bank conducted numerous housing fairs, first-time home buyer seminars, seminars for community-based organizations, and small business seminars to educate the public on various lending programs that are available.

The bank continues to participate in educational workshops and conferences, and regularly meets with representatives from numerous municipalities, government, community based organizations, universities and other schools.

During the review period the bank continued its participation in several programs aimed at providing educational and down payment assistance for low-income residents looking to buy a home. Programs that are included in this category include the First Home Club sponsored by the FHLBNY, ARCO: Administración para la Revitalización de las Comunidades; Section 8 Home Ownership Program, "Hogar Seguro" New Secure Housing Program, and The Key for Your Home Program. The bank's participation in these programs involves providing economic literacy training, administering savings accounts that receive matching funds, preparing enrollment documents, educating agencies on the procedural points involved in establishing Individual Development Accounts, communicating the benefits of these programs to low- and moderate-income individuals and municipalities by conducting workshops, and processing, underwriting and originating loans to assist understaffed agencies.

Additionally, in 2005, Doral Bank implemented the Center for Enterprise Development's (CFED) IDA pilot program called SEEDS (Savings for Education, Entrepreneurship and Down-Payment). The SEEDS IDA program assists parents in saving for education. The SEEDS accounts are long-term savings and investment accounts, which are usually seeded with an initial deposit of \$1,000 and built by deposits from family, friends and accountholders themselves, as



well as augmented by other public and private sources. SEED savings are restricted for the primary purposes of financing education, starting a small business or buying a home. It is the first project on IDA accounts that will be targeted to children.

### **RESPONSE TO COMPLAINTS**

A review of FDIC records, as well as the bank's Public CRA File, revealed no complaints relating to Doral Bank's CRA performance.

### **COMPLIANCE WITH ANTI-DISCRIMINATION LAWS**

During a consumer compliance examination conducted concurrently with this evaluation, no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

## **METROPOLITAN AREAS**

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN CSA 364**

This area contains all municipalities within MSA 32420 (Mayaguez) and MSA 41900 (San German – Cabo Rojo). According to the 2000 census data, the assessment area consists of 1 (1.82 percent) low-income census tract, 8 (14.54 percent) moderate-income census tracts, 35 (63.64 percent) middle-income census tracts, and 11 (20 percent) upper-income census tracts.

### **Conclusions with respect to performance tests in CSA 364:**

#### **LENDING TEST**

The bank's performance in CSA 364 was consistent with its overall performance. During 2004 and 2005, approximately 3 percent of all HMDA loans were originated in this area. During 2004 and 2005, approximately 3 and 2 percent, respectively of all consumer loans were originated in this CSA. This volume is considered adequate given the proportion of branches, census tracts, housing units, households, and number of businesses in relation to the entire assessment area. The distribution of in-area loans, by geography, income of the borrower, and business characteristics, was relatively consistent with the demographics of the MSA.

The community development loans originated during 2004 and 2005 benefited borrowers in this MSA.

Refer to pages 15 through 33 for a complete analysis of the bank's performance under the Lending Test.

#### **INVESTMENT TEST**

The bank's performance in this assessment area is consistent with its overall performance. Refer to pages 34 and 35 of this performance evaluation for a complete analysis of the bank's performance under the Investment Test.

#### **SERVICE TEST**

The bank's performance in this assessment area is consistent with its overall performance. Refer to pages 36 through 39 of this performance evaluation for a complete analysis of the bank's performance under the Service Test.

## **DESCRIPTION OF INSTITUTION'S OPERATIONS IN CSA 434**

This area contains all municipalities within MSA 38660 (Ponce) and MSA 49500 (Yauco). According to the 2000 census data, the assessment area consists of 2 (2.25 percent) low-income census tracts, 22 (24.72 percent) moderate-income census tracts, 39 (43.82 percent) middle-income census tracts, and 25 (28.09 percent) upper-income census tracts. This area also includes one (1.12 percent) census tract for which no demographic data is available, which is usually the result of limited or no population.

### **Conclusions with respect to performance tests in CSA 434:**

#### **LENDING TEST**

The bank's performance in CSA 434 was consistent with its overall performance. During 2004 and 2005, approximately 6 and 7 percent, respectively of all HMDA loans were originated in this area. During 2004 and 2005, approximately 5 percent of all consumer loans were originated in this CSA. This volume is considered adequate given the proportion of branches, census tracts, housing units, households, and number of businesses in relation to the entire assessment area. The distribution of in-area loans, by geography, income of the borrower, and business characteristics, was relatively consistent with the demographics of the MSA.

The community development loans originated during 2004 and 2005 benefited borrowers in this MSA.

Refer to pages 15 through 33 for a complete analysis of the bank's performance under the Lending Test.

#### **INVESTMENT TEST**

The bank's performance in this assessment area is consistent with its overall performance. Refer to pages 34 and 35 of this performance evaluation for a complete analysis of the bank's performance under the Investment Test.

#### **SERVICE TEST**

The bank's performance in this assessment area is consistent with its overall performance. Refer to pages 36 through 39 of this performance evaluation for a complete analysis of the bank's performance under the Service Test.

## **DESCRIPTION OF INSTITUTION'S OPERATIONS IN CSA 490**

This area contains all municipalities within MSA 21940 (Fajardo) and 41980 (San Juan). According to the 2000 census data, the assessment area consists of 18 (3.26 percent) low-income census tracts, 154 (27.90 percent) moderate-income census tracts, 215 (38.95 percent) middle-income census tracts, and 165 (29.89 percent) upper-income census tracts.

### **Conclusions with respect to performance tests in CSA 490:**

## **LENDING TEST**

The bank's performance in CSA 490 was consistent with its overall performance. During 2004 and 2005, approximately 86 and 83 percent, respectively of all HMDA loans were originated in this area. During 2004 and 2005, approximately 87 and 86 percent of all consumer loans were originated in this CSA. This volume is considered adequate given the proportion of branches, census tracts, housing units, households, and number of businesses in relation to the entire assessment area. The distribution of in-area loans, by geography, income of the borrower, and business characteristics, was relatively consistent with the demographics of the MSA.

The community development loans originated during 2004 and 2005 benefited borrowers in this MSA.

Refer to pages 15 through 33 for a complete analysis of the bank's performance under the Lending Test.

## **INVESTMENT TEST**

The bank's performance in this assessment area is consistent with its overall performance. Refer to pages 34 and 35 of this performance evaluation for a complete analysis of the bank's performance under the Investment Test.

## **SERVICE TEST**

The bank's performance in this assessment area is consistent with its overall performance. Refer to pages 36 through 39 of this performance evaluation for a complete analysis of the bank's performance under the Service Test.

## **DESCRIPTION OF INSTITUTION'S OPERATIONS IN MSA 10380**

This area contains all municipalities within MSA 10380 (Aguadilla – Isabela – San Sebastian) which is not part of a CSA. According to the 2000 census data, the assessment area consists of 8 (12.50 percent) moderate-income census tracts, 49 (76.56 percent) middle-income census tracts, and 7 (10.94 percent) upper-income census tracts. This area does not have any low-income census tracts.

### **Conclusions with respect to performance tests in MSA 10380:**

#### **LENDING TEST**

The bank's performance in MSA 10380 was consistent with its overall performance. During 2004 and 2005, approximately 2 and 3 percent, respectively of all HMDA loans were originated in this area. During 2004 and 2005, approximately 2 percent of all consumer loans were originated in this CSA. This volume is considered adequate given the proportion of branches, census tracts, housing units, households, and number of businesses in relation to the entire assessment area. The distribution of in-area loans, by geography, income of the borrower, and business characteristics, was relatively consistent with the demographics of the MSA.

The community development loans originated during 2004 and 2005 benefited borrowers in this MSA.

Refer to pages 15 through 33 for a complete analysis of the bank's performance under the Lending Test.

#### **INVESTMENT TEST**

The bank's performance in this assessment area is consistent with its overall performance. Refer to pages 34 and 35 of this performance evaluation for a complete analysis of the bank's performance under the Investment Test.

#### **SERVICE TEST**

The bank's performance in this assessment area is consistent with its overall performance. Refer to pages 36 through 39 of this performance evaluation for a complete analysis of the bank's performance under the Service Test.

## **DESCRIPTION OF INSTITUTION'S OPERATIONS IN MSA 25020**

This area contains all municipalities within MSA 25020 (Guayama) which is not part of a CSA. According to the 2000 census data, the assessment area consists of 12 (80 percent) middle-income census tracts, and 3 (20 percent) upper-income census tracts. This area does not have any low-income or moderate-income census tracts.

### **Conclusions with respect to performance tests in MSA 25020:**

## **LENDING TEST**

The bank's performance in MSA 25020 was consistent with its overall performance. During 2004 and 2005, approximately 2 and 3 percent, respectively of all HMDA loans were originated in this area. During 2004 and 2005, approximately 2 and 3 percent, respectively of all consumer loans were originated in this CSA. This volume is considered adequate given the proportion of branches, census tracts, housing units, households, and number of businesses in relation to the entire assessment area. The distribution of in-area loans, by geography, income of the borrower, and business characteristics, was relatively consistent with the demographics of the MSA.

The community development loans originated during 2004 and 2005 benefited borrowers in this MSA.

Refer to pages 15 through 33 for a complete analysis of the bank's performance under the Lending Test.

## **INVESTMENT TEST**

The bank's performance in this assessment area is consistent with its overall performance. Refer to pages 34 and 35 of this performance evaluation for a complete analysis of the bank's performance under the Investment Test.

## **SERVICE TEST**

The bank's performance in this assessment area is consistent with its overall performance. Refer to pages 36 through 39 of this performance evaluation for a complete analysis of the bank's performance under the Service Test.

## **NON-METROPOLITAN STATEWIDE AREAS\***

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN NON MSA AREAS**

This area contains eight municipalities that are not within an MSA. According to the 2000 census data, the assessment area consists of 5 (11.63 percent) moderate-income census tracts, 32 (74.42 percent) middle-income census tracts, and 6 (13.95 percent) upper-income census tracts. This area does not have any low-income census tracts.

### **Conclusions with respect to performance tests in non-MSA areas:**

#### **LENDING TEST**

The bank's performance in non-MSA areas was consistent with its overall performance. During 2004 and 2005, approximately 1 percent of all HMDA loans were originated in this area. During 2004 and 2005, approximately 1 and 2 percent, respectively of all consumer loans were originated in this CSA. This volume is considered adequate given the proportion of branches, census tracts, housing units, households, and number of businesses in relation to the entire assessment area. The distribution of in-area loans, by geography, income of the borrower, and business characteristics, was relatively consistent with the demographics of the MSA.

The community development loans originated during 2004 and 2005 benefited borrowers in this MSA.

Refer to pages 15 through 33 for a complete analysis of the bank's performance under the Lending Test.

#### **INVESTMENT TEST**

The bank's performance in this assessment area is consistent with its overall performance. Refer to pages 34 and 35 of this performance evaluation for a complete analysis of the bank's performance under the Investment Test.

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\*The discussion of an institution's CRA performance within a Non-Metropolitan statewide area is only required for institutions with branches in two or more states. A separate discussion of CRA performance within a Non-Metropolitan statewide area for intrastate banks that have branches in metropolitan and Non-Metropolitan areas is optional because the performance in the Non-Metropolitan areas has been reviewed and discussed in the overall evaluation of the institution. Examiners may wish to discuss in greater detail; however, the assessment areas within Non-Metropolitan areas that were reviewed using the examination procedures for intrastate banks with branches in metropolitan and Non-Metropolitan areas, or for intrastate banks with branches only in Non-Metropolitan areas.

## **SERVICE TEST**

The bank's performance in this assessment area is consistent with its overall performance. Refer to pages 36 through 39 of this performance evaluation for a complete analysis of the bank's performance under the Service Test.



## APPENDIX A

### SCOPE OF EXAMINATION:

<b>DORAL BANK</b>		
<b>SCOPE OF EXAMINATION:</b> Doral Bank was examined in accordance with “Large Bank” CRA performance procedures.		
<b>TIME PERIOD REVIEWED:</b> Loan analysis: January 2004 through December 2005. Community development loans, investments, and services: October 22, 2003 through August 1, 2006.		
<b>PRODUCTS REVIEWED:</b> 1-4 Family Residential Mortgage Loans, Refinance, Home Improvement Loans, Small Business Loans, and Consumer Loans.		

<b>LIST OF AFFILIATES AND PRODUCTS REVIEWED</b>		
<b>AFFILIATE(S):</b>	<b>AFFILIATE RELATIONSHIP:</b>	<b>PRODUCTS REVIEWED:</b>
HF Mortgage Bankers	Subsidiary of HC	HMDA Loans
Doral Mortgage Corporation	Subsidiary of HC	HMDA Loans
Centro Hipotecario De Puerto Rico, Inc.	Subsidiary of HC	HMDA Loans
Sana Mortgage Corporation	Subsidiary of HC	HMDA Loans

<b>LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION</b>			
<b>ASSESSMENT AREA:</b>	<b>TYPE OF EXAMINATION:</b>	<b>BRANCHES VISITED:</b>	<b>OTHER INFORMATION:</b>
CSA 364	Full Scope	None	None
CSA 434	Full Scope	None	None
CSA 490	Full Scope	None	None
MSA 10380	Full Scope	None	None
MSA 25020	Full Scope	None	None
Non-MSA Areas	Full Scope	None	None

## APPENDIX B - GENERAL DEFINITIONS

### GEOGRAPHY TERMS

**Block:** Small areas bounded on all sides by visible features such as streets, roads, streams or rail road tracks, and invisible features like city or town boundaries or property lines. Blocks are subdivisions of census tracts or block numbering areas (BNA), and are assigned a unique three-digit number.

**Block Group:** Clusters of blocks within a census tract or BNA, having a four-digit number and a three-digit suffix. The four-digit number corresponds to the same number given to the census tract or BNA in which it is located.

**Block Numbering Areas (BNAs):** Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

**Census Tract:** Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Metropolitan Statistical Area (MSA/MD):** The Metropolitan Statistical Areas have at least one urbanized area of 50,000 or more population. There are 11 instances (Boston, Chicago, Dallas, Detroit, Los Angeles, Miami, New York, Philadelphia, San Francisco, Seattle, and Washington) where a Metropolitan Statistical Area containing a single core with a population of 2.5 million or more has been subdivided to form smaller groupings of counties referred to as **Metropolitan Divisions** (One or more large population centers and adjacent communities that have a high degree of economic and social integration.) Each MD must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MD comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MDs are composed of cities and towns rather than whole counties.

**Combined Statistical Area (CSA):** The larger area of which MSAs are component parts.

**Non-Metropolitan Area:** All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages,

boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

**Rural Area:** Territories, populations and housing units that are not classified as urban.

## **HOUSING TERMS**

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

## **INCOME TERMS**

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

**Family Income:** Includes the income of all members of a family that are age 15 and older.

**Household Income:** Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

**Upper-Income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

**HUD Adjusted Income Data:** The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

## **OTHER TERMS**

**Home Mortgage Disclosure Loan Application Register (HMDA LAR):** The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

**Small Business Loan:** A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

## APPENDIX C - INVESTMENT DEFINITIONS

**Community Development Corporation (CDC):** A CDC allows banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the bank. A CDC may purchase, own, rehabilitate, construct, manage and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. CDFIs share a common mission and can be chartered as a credit union or bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, microenterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: having a primary mission of promoting community development; serving an investment area or target population; providing development services; maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

**Low Income Housing Tax Credits:** The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. The housing agencies allocate tax credits on a competitive basis. Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits or sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains in place throughout the compliance period, usually 30 years.

**Qualified Investments:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- and moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- and moderate-income geographies.